

CHAPTER 29
MANAGEMENT EFFICIENCY STANDARDS
[Prior to 10/8/86, Commerce Commission[250]]

199—29.1(476) Policy and purpose. It is the policy of the board that a public utility shall be operated in an efficient manner. This chapter describes the methodology to be used for evaluating the efficiency of rate-regulated utility management and the manner in which those evaluations will be used.

199—29.2(476) Efficiency considered in rate case. In formal rate proceedings conducted under Iowa Code chapter 476, the board may consider whether the public utility is being operated in an efficient or inefficient manner. All utilities will be evaluated according to the procedure set forth in rule 29.3(476). If the board finds the utility is poorly managed or exceptionally well managed, the board may establish a penalty or reward, respectively, as provided in rule 29.4(476).

199—29.3(476) Management efficiency standards.

29.3(1) *In general.* The efficiency or inefficiency of a utility will be evaluated on a case-by-case basis, based upon the utility's particular facts and circumstances. Utility management efficiency does not lend itself to an absolute measure due to the vast array of extremely important factors that may vary from area to area. These include such things as customer mix, territory of the utility, economic conditions in the areas served, weather patterns and disasters. The reality of change, and the ability of management to anticipate and respond to these changes, greatly affect any judgment of management efficiency or inefficiency, and must be considered in establishing any rewards for efficiency or penalties for inefficiency.

When evaluating a utility, the board may consider any of the factors listed in this subrule and any additional relevant information. These factors will be guidelines for evaluating a utility's efficiency or inefficiency. No single factor or group of factors will be deemed conclusive evidence of efficiency or inefficiency. In considering those factors, the board may collect data to compare a utility, except a water utility, to other utilities providing the same service in the state. The board may consider:

a. The price per unit of service (including amounts collected subject to refund) by customer class and type of service. For natural gas utilities, one "unit of service" is 1000 BTUs.

b. Operation and maintenance costs per unit of service. Low operations and maintenance costs will not be deemed indicative of efficiency if quality of service is substandard. This data, when required, shall be reported on a total company basis and on an Iowa jurisdictional basis if the company serves jurisdictions other than Iowa.

c. Quality of service, as reflected by customer complaints shown in company and board records and measures of customer satisfaction.

d. Officer compensation.

(1) Gas and electric utilities. The total compensation for electric and gas utilities for each officer. The utility, when required, shall provide this information both for the utility and for the parent/holding company.

(2) Telephone utilities:

1. The five largest total compensation packages that are expensed or capitalized to Iowa's regulated operations by the utility or its affiliates, and

2. The five largest total compensation packages for officers or employees stationed in Iowa.

Each telephone company, when required, shall provide this information and shall indicate what portions of the compensation packages in 29.3(1) "d"(2)"2" are allocated to Iowa-regulated operations.

- e. The company's bad debt ratio.
- f. Innovative ideas implemented by utility management.
- g. Other factors the board determines to be relevant in an individual proceeding.

29.3(2) *Electric utilities.* When evaluating an electric utility, the board may consider the following factors in addition to the factors listed in subrule 29.3(1):

- a. Fuel cost per kwh.
- b. Availability for each generating unit with 2,000 or more service hours per year.
- c. Company-wide load factor.
- d. Development and implementation of energy efficiency programs.

29.3(3) *Natural gas utilities.* When evaluating a natural gas utility, the board may consider the following factors in addition to the factors listed in subrule 29.3(1):

- a. Total cost per unit of gas purchased by distribution companies from the pipeline (to be considered separately from operations and maintenance costs).
- b. Total cost per unit of purchased gas from other sources (to be considered separately from operations and maintenance costs).
- c. Residential and commercial sales volume in relation to investment in the system (rate base).
- d. Unaccounted-for gas as a percentage of total sales volume.
- e. Development and implementation of energy efficiency programs.

29.3(4) *Telephone utilities.* When evaluating a telephone utility, the board may consider the following factors in addition to the factors listed in subrule 29.3(1):

- a. Total plant investment per customer.
- b. Quality of service, as reflected by the percentage of customers with access to specific types of service.

29.3(5) *Water utilities.* Water utilities will not be evaluated by comparison with other water utilities. Satisfactory management of water utilities will be presumed unless the contrary is established in an individual proceeding under Iowa Code chapter 476.

199—29.4(476) Rewards and penalties. In the course of a proceeding conducted under Iowa Code chapter 476, the board will determine whether a utility is being managed well or poorly. In making this determination, the board will not be limited to test year data. If the board determines that a utility is being managed exceptionally well, the board will adjust the return on common equity upward to reflect the degree of management efficiency. If the board determines that a utility, except a rural electric cooperative, is being poorly managed, the board will adjust the return on common equity downward to reflect the degree of management inefficiency. When a rural electric cooperative is shown to be poorly managed, the board will disallow from the revenue requirement all travel expenses for the board of directors and manager. The board will not establish any reward or penalty if the board finds the utility has been managed satisfactorily but not exceptionally well or poorly, because satisfactory management is expected from all public utilities.

199—29.5(476) Annual reports of management efficiency. Rescinded IAB 11/5/97, effective 12/10/97.

These rules are intended to implement Iowa Code sections 476.52 and 546.7.

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